

Message Text

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FM AMEMBASSY BELGRADE

TO USDOC WASHDC PRIORITY

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AMCONSUL ZAGREB

UNCLAS BELGRADE 0240

PASS EXIMBANK

E.O. 11652: N/A

TAGS: BEXP YO

SUBJECT: PRODUCT OPPORTUNITY: SLAVONSKA POZEGA FOUNDRY
AND RMK ZENICA PIPEFITTING FACILITY

REF: STATE 2360

1. SUMMARY: WITH ACTIVE EFFORT SHALCO CAN STAY IN RUNNING FOR REMAINING 60 PERCENT OF SLAVONSKA POZEGA EXPANSION PROGRAM, FOR WHICH SWINDELL DRESSLER REPORTEDLY ALSO HAS SUBMITTED OFFER. TO CONTEND WITH STIFF GERMAN COMPETITION FOR RMK ZENICA CONTRACT, SHALCO MUST OVERCOME YUGOSLAV ENTERPRISE'S RESERVATIONS OVER ECONOMIC ASPECTS OF PROPOSAL, AND EXIMBANK SHOULD EXTEND PRELIMINARY COMMITMENT ON SAME TERMS. END SUMMARY.

2. AMCONGEN ZAGREB DISCUSSED FOUNDRY EXPANSION PROGRAM WITH SLAVONSKA POZEGA OFFICIAL, WHO CONFIRMED THAT DURING NOVEMBER 1974 FOUNDRY AWARDED US \$3 MILLION CONTRACT FOR BASIC CASTINGS PRODUCTION LINE TO DANISH FIRM. CONTRACT REPRESENTS 40 PERCENT OF FOUNDRY EXPANSION PROJECT. FOUNDRY OFFICIAL SAID SHALCO LOST AWARD, IN PART, DUE TO SLOWNESS OF ITS OFFER. THIS LED FOUNDRY TO BELIEVE US FIRM QUOTE MIGHT NOT BE SERIOUS UNQUOTE. SOURCE INDICATED FOUNDRY INTENDS TO MOVE QUICKLY WITH REMAINDER OF PROJECT AND THAT SHALCO IS IN RUNNING FOR THIS INCRE-
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MENT. US FIRM, HOWEVER, HAS NOT REPEAT NOT YET PROVIDED

PRICE INFORMATION. SOURCE URGED SHALCO TO SUBMIT QUOTATION AT EARLIEST POSSIBLE DATE. HE ALSO COMMENTED THAT IT WOULD BE USEFUL IF SHALCO AGENT KUPLEX, BELGRADE, KEPT ABREAST OF DEVELOPMENTS.

3. EMBOFF SPOKE WITH KUPLEX GENERAL DIRECTOR SAVOVIC, WHO SAID HE BELIEVED SHALCO HAS EXCELLENT CHANCE TO WIN REMAINING PORTION OF PROJECT. SAVOVIC HAS ARRANGED MEETING THIS WEEK WITH SLAVONSKA POZEGA, AND SAID HE WOULD INFORM SHALCO DIRECTLY OF OUTCOME OF TALKS.

4. WE UNDERSTAND SWINDELL DRESSLER ALSO HAS SUBMITTED A BID FOR SLAVONSKA POZEGA EXPANSION PROGRAM.

5. EMBOFF DISCUSSED STATUS RMK ZENICA PIPEFITTING FACTORY WITH YUGOSLAV FIRM'S BELGRADE REPRESENTATIVE BUDIMIR KOSTIC OF PROGRES. KOSTIC INDICATED THAT ODDS SHALCO WILL WIN CONTRACT ARE ONLY SLIGHTLY BETTER THAN EVEN. HE SAID ZENICA WAS EXTREMELY PLEASED WITH TECHNICAL EXCELLENCE OF SHALCO'S STUDY; HOWEVER, SOME DOUBTS REMAIN THAT RETURN ON INVESTMENT FROM SHALCO PLANT WOULD BE HIGH ENOUGH TO INSURE ECONOMIC FEASIBILITY OF PROJECT. EMBOFF WAS TOLD MUCH THE SAME THING IN EARLIER CONVERSATIONS DIRECTLY WITH RMK ZENICA OFFICIALS, INCLUDING DEPUTY GENERAL MANAGER AND TECHNICAL PERSONNEL. ZENICA OFFICIALS EXPRESSED HOPE THAT REVISED STUDY, WHICH RMK AWAITED SINCE LAST SUMMER AND SHALCO SUBMITTED IN DECEMBER, WOULD BE GOOD STEP TOWARD ENSURING ADEQUATE RETURN ON INVESTMENT.

6. KUPLEX INDICATED TO EMBOFF THAT POSSIBLE LOW RETURN ON INVESTMENT IS A PROBLEM, BUFLS THAT MOST IMPORTANT FACTOR IS TERMS OF EXIM CREDIT.

7. EMBASSY CONSIDERS THAT BOTH RETURN ON INVESTMENT AND FINANCING ARE STICKY QUESTIONS IN SHALCO PROPOSAL. A COMPETING GERMAN OFFER REPORTEDLY INCLUDES SOUND TECHNOLOGY, GOOD FINANCING, AND AN ARRANGEMENT FOR OFFSET PURCHASES. FURTHERMORE, WE UNDERSTAND THAT, IN PAYING SHALCO ALMOST US \$100,000 TOWARDS COST OF STUDY, RMK ZENICA APPARENTLY OBTAINED RIGHT TO USE STUDY EVEN IF CONTRACT PLACED WITH UNCLASSIFIED

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A COMPETITOR. (STUDY ITSELF APPARENTLY IS MODIFICATION OF PROPOSAL SHALCO HAD MADE FOR ANOTHER PROJECT.)

8. ACTION RECOMMENDED: EMBASSY BELIEVES SHALCO AND ITS AGENT KUPLEX MUST KEEP IN CLOSE TOUCH WITH SLAVONSKA POZEGA AND RMK ZENICA TO STAY IN RUNNING FOR THESE PROJECTS. WE HOPE EXIMBANK CAN GRANT ANOTHER EXTENSION ON SAME TERMS FOR RMK ZENICA FACILITY WHILE SHALCO

ATTEMPTS TO DISPEL YUGOSLAV ENTERPRISE'S CONCERN OVER
RETURN ON INVESTMENT. AS OPPORTUNITIES ARISE EMBASSY
AND AMCONSUL ZAGREB WILL ENCOURAGE YUGOSLAV ENTERPRISES
TO KEEP SHALCO (AND SWINDELL DRESSLER AT SLAVONSKA POZEGA)
UNDER CONSIDERATION. WHEN GLEN MARKS OF SHALCO NEXT
VISITS YUGOSLAVIA (WE HEAR HE WAS HERE IN DECEMBER), HE
MAY WISH TO CALL ON US TO DISCUSS HOW WE MIGHT PROVIDE
ADDITIONAL ASSISTANCE.
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